

**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 11, 2003



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Paul H. Thompson, Floyd County Judge/Executive
Honorable John Blackburn, Floyd County Sheriff
Members of the Floyd County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Floyd County Sheriff's Settlement - 2002 Taxes as of August 11, 2003.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Floyd County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 11, 2003

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FLOYD COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

August 11, 2003

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2002 Taxes for Floyd County Sheriff as of August 11, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$10,966,444 for the districts for 2002 taxes, retaining commissions of \$304,082 to operate the Sheriff's office. The Sheriff distributed taxes of \$10,627,083 to the districts for 2002 Taxes. Taxes of \$7 are due to the districts from the Sheriff and refunds of \$63 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Members of the Floyd County Fiscal Court

Independent Auditor's Report

We have audited the Floyd County Sheriff's Settlement - 2002 Taxes as of August 11, 2003. This tax settlement is the responsibility of the Floyd County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Floyd County Sheriff's taxes charged, credited, and paid as of August 11, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Paul Hunt Thompson, Floyd County Judge/Executive

Honorable John Blackburn, Floyd County Sheriff

Members of the Floyd County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
December 11, 2003

FLOYD COUNTY
JOHN BLACKBURN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

August 11, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 942,974	\$ 1,188,013	\$ 3,929,059	\$ 884,038
Tangible Personal Property	157,881	109,224	657,315	314,631
Intangible Personal Property				374,427
Fire Protection	3,689			
Increases Through Exonerations	187	121	780	1,119
Omitted Taxes	2,971	3,762	12,379	2,785
Franchise Corporation	215,050	217,525	891,156	
Additional Billings	9,742	11,706	38,841	8,717
Unmined Coal - 2002 Taxes	60,198	76,117	250,826	56,436
Oil and Gas Property Taxes	229,980	149,133	958,095	215,569
Penalties	14,267	17,347	59,299	14,738
Adjusted to Sheriff's Receipt	(232)	(13)	(471)	(143)
Gross Chargeable to Sheriff	<u>\$ 1,636,707</u>	<u>\$ 1,772,935</u>	<u>\$ 6,797,279</u>	<u>\$ 1,872,317</u>
<u>Credits</u>				
Exonerations	\$ 9,388	\$ 12,288	\$ 39,044	\$ 244,804
Discounts	19,638	20,606	81,582	22,776
Delinquents:				
Real Estate	88,377	108,683	367,177	82,615
Tangible Personal Property	1,914	1,325	7,975	3,214
Intangible Personal Property				252
Omitted Gas	87	53	349	78
Additional Bills	84	55	351	79
Total Credits	<u>\$ 119,488</u>	<u>\$ 143,010</u>	<u>\$ 496,478</u>	<u>\$ 353,818</u>
Taxes Collected	\$ 1,517,219	\$ 1,629,925	\$ 6,300,801	\$ 1,518,499
Less: Commissions *	<u>64,769</u>	<u>48,473</u>	<u>126,016</u>	<u>64,824</u>
Taxes Due	\$ 1,452,450	\$ 1,581,452	\$ 6,174,785	\$ 1,453,675
Taxes Paid	1,446,310	1,577,039	6,277,244	1,452,508
Commissions Refunded from School			126,018	
Refunds (Current and Prior Year)	<u>6,139</u>	<u>4,414</u>	<u>23,556</u>	<u>1,226</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ 3</u>	<u>\$ (59)</u>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

FLOYD COUNTY
 JOHN BLACKBURN, SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 August 11, 2003
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	4,015,666
2% on	\$	6,300,801
1% on	\$	639,977

** Special Taxing Districts:

Library District	\$	2
Extension District		1
Betsy Lane District		(2)
Mudd Creek District		(1)
Allen District		(1)
		<hr/>
Due Districts or (Refund Due Sheriff)	\$	<u>(1)</u>

The accompanying notes are an integral part of this financial statement.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT

August 11, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 11, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT
August 11, 2003
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2002 through July 16, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2002 through July 16, 2003.

Note 4. Interest Income

The Floyd County Sheriff earned \$4,616 as interest income on 2002 taxes. As of December 11, 2003, the Sheriff owes \$87 in interest to the school district and is due \$60 in interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Floyd County Sheriff collected \$90,182 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Floyd County Sheriff collected \$2,120 of advertising costs and \$6,490 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

FLOYD COUNTY
JOHN BLACKBURN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of August 11, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “ that part of his investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. During 2002 tax collections, Sheriff John Blackburn earned interest of \$4,616 on his tax account. However, Sheriff John Blackburn did not pay the interest to the Board of Education or the fee account on a monthly basis. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff’s Response:

No Response.

PRIOR YEAR:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This comment is not repeated in the current year audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Floyd County Sheriff's Settlement - 2002 Taxes as of August 11, 2003, and have issued our report thereon dated December 11, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Floyd County Sheriff's Settlement - 2002 Taxes as of August 11, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Floyd County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", is written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -
December 11, 2003

